
**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

**SOUTH BELOIT WATER, GAS,
AND ELECTRIC COMPANY**

	:	
	:	Docket Nos. 03-0676 and 03-0677
Proposed General Increase in Natural	:	(Consolidated)
Gas Rates	:	
	:	
Proposed General Increase in	:	
Water Rates	:	

**SURREBUTTAL TESTIMONY
OF
JILL S. OSTEROLZ**

May 11, 2004

1 **Q. Please state your name, business address and present position.**

2 A. My name is Jill S. Osterholz and my business address is 4902 North
3 Biltmore Lane, Madison, Wisconsin 53718. I am employed by Alliant
4 Energy Corporate Services, Inc. (“AECS”) as a Product Manager.

5 **Q. Are you the same Jill Osterholz who previously submitted direct and**
6 **rebuttal testimony in this proceeding on behalf of SBWGE?**

7 A. Yes.

8 **Q. What is the purpose of your surrebuttal testimony?**

9 A. The purpose of my surrebuttal testimony is to respond to the rebuttal
10 testimony of Staff witness, Thomas Q. Smith, on the issue of eliminating
11 the cost of the Shared Savings program from gas revenue requirements.

12 **Q. Has the Company revised its position on this issue?**

13 A. No. I believe that Mr. Smith does not fully understand energy efficiency
14 programs and the objectives of achieving energy efficiency which benefit
15 all customers. The Shared Savings program has been offered to SBWGE
16 customers since 1988, and SBWGE, in good faith, continued this until
17 2003. The Shared Savings program benefited participants and non-
18 participants, and SBWGE asks for rate recovery of its expenditures.

19 **Q. What issues would you like to discuss in regards to Mr. Smith’s**
20 **rebuttal testimony?**

21 A. Specifically, I would like to address Mr. Smith's comment on one group
22 of customers subsidizing another. Next, I would like to address Mr.
23 Smiths' contention that a reduction in sales to commercial and industrial
24 customers increases the amount of fixed cost per unit and thus increases
25 cost to residential customers. And finally, I will address why the
26 Company thinks it is appropriate to include the Shared Savings costs in the
27 revenue requirement.

28 **Q. On page 10 of his rebuttal testimony, Mr. Smith states that it is**
29 **Commission policy that one group of customers should not be**
30 **required to subsidize another group. Do you believe that the Shared**
31 **Savings Program requires one group of SBWGE customers to**
32 **subsidize another group of SBWGE customers?**

33 A. No, I do not believe the Shared Savings program requires one group of
34 customers to subsidize another group of customers as Mr. Smith claims.
35 Mr. Smith assumes that Shared Savings participants are only in one
36 customer class. However, it is important for the Commission to
37 understand that SBWGE has three customer rates classes, and each rate
38 class contains Shared Savings participants. Please refer to Exhibit ____
39 (JSO-6) for details.

40 **Q. What are those three customer classes?**

41 A. SBWGE has a Gg-1 customer class which consists of residential and small
42 commercial customers. It also has a Gg-2 customer class consisting of

43 large commercial and industrial customers who take firm service, and a
44 Gg-7 class consisting of large commercial and industrial customers who
45 take interruptible service. Of the customers who participated in SBWGE's
46 Shared Savings program from 1998-2003, 64% of the participants are Gg-
47 1 customers. Consequently, Mr. Smith's assertion that one customer class
48 is subsidizing another customer class is unfounded. All customers are
49 benefiting from the natural gas energy savings of the participating
50 customers as I demonstrated in my direct and rebuttal testimony, and all
51 three customer classes contain Shared Saving participants.

52 **Q. On page 10 of Mr. Smith's rebuttal testimony, he further asserts that**
53 **if the Shared Savings participants paid the cost the program then**
54 **there would be no subsidy from the non-participating customers. Do**
55 **you agree with Mr. Smith's assertion?**

56 A. No, I do not. Mr. Smith's assertion contradicts the fundamentals of rate
57 design. Any time you have more than one customer in a rate class and
58 allocate costs of service to that combined class, you have some customers
59 paying for other's costs. Costs are never allocated customer by customer
60 in the rate-making process. In other words, in rate design, you cannot
61 eliminate subsidization with every customer. With Mr. Smith's reasoning,
62 you would have to allocate costs of service to individual customers in
63 order to be equitable, and eliminate all subsidies among customers. This
64 is not a reasonable approach to rate design and not generally accepted.

65 **Q. On page 12 of his rebuttal testimony, Mr. Smith states that he**
66 **supports the Shared Savings program as long as participants pay for**
67 **the improvements in their energy consumption patterns. Would you**
68 **like to comment on his statement?**

69 A. Yes, I would. Sonya Kessinger testified to the Company's gas cost of
70 service model and rate design. She modified her cost of service model to
71 allocate Shared Savings expenses based upon each rate class's
72 involvement in the Shared Savings program. Ms. Kessinger presents her
73 findings in her surrebuttal testimony.

74 **Q. On page 11 of Mr. Smith's rebuttal testimony, he contends that a**
75 **reduction in sales to commercial and industrial customers increases**
76 **the amount of fixed cost per unit and thus increases cost to residential**
77 **customers. Do you agree?**

78 A. No, I do not. In order for a reduction in sales to impact fixed costs, the
79 Company must not experience any savings through reduced costs. In the
80 case of the Shared Savings program, the Company experiences savings
81 through the program by reducing peak demand. Mr. Smith fails to give
82 one example based on record evidence where the fixed costs of the
83 Company increased because of the Company's Shared Savings program.

84 **Q. On page 17 of his rebuttal testimony, Mr. Smith believes the purpose**
85 **of this docket is to identify the Company's revenue requirement. Do**
86 **you agree?**

87 A. Yes, I do. As I stated before, SBWGE is seeking to recover only the costs
88 to deliver the program to SBWGE customers. SBWGE believes that all
89 customers should pay a fair share of the program costs as they receive
90 benefits through lower natural gas costs as a result of the Shared Savings
91 program. The participating customers pay back to SBWGE the bulk of the
92 costs, i.e., the cost of the energy efficient equipment and the cost of
93 installation which is installed at their facility.

94 **Q. Does this conclude your surrebuttal testimony?**

95 A. Yes.